

November 19, 2014

Mr. Steven V King, Executive Director and Secretary
Washington Utilities and Transportation Commission
PO Box 47250
1300 South Evergreen Park Drive, SW
Olympia, WA 98504-7250

Dear Mr. King:

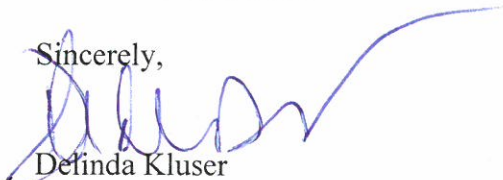
Re: Supplement to 2014 Petition to Receive Support from the State Universal
Communications Services Program-UT-141470
CLAIM OF CONFIDENTIALITY

Pursuant to WAC 480-123-110, on behalf of Skyline Telecom, Inc. ("Company") enclosed Herewith for filing with the Washington Utilities and Transportation Commission ("Commission") is an original, unredacted version of the Company's Petition to Receive Support from the state universal communications services program established by RCW 80.36.650 ("Petition"), together with an original and one (1) copy of a redacted version of the Petition.

Because of the CONFIDENTIAL nature of the information set forth in portions of the accompanying Supplement to the Petition, pursuant to RCW 80.04.095 and WAC 480-07-160 the Company hereby asserts a claim of confidentiality with respect thereto. The basis for this claim is that the portions of the Petition, including the exhibits, that have been marked as "confidential" contain valuable commercial information, including confidential marketing, cost and financial information. Accordingly, in compliance with WAC 480-07-160(3)(c), unredacted and redacted versions of those documents accompany this letter. As specified in WAC 480-07-160(3)(b)(i), the original and a copy (both redacted and unredacted) of materials claimed to be confidential have been marked "CONFIDENTIAL PER WAC 480-07-160". The redacted version has been marked "REDACTED"

If the Commission has any questions regarding the enclosed petition, please do not hesitate to contact me by e-mail.

Sincerely,



Definda Kluser
Vice President/Manager

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Redacted
CONFIDENTIAL
Per WAC 480-07-160

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Telephone Corporation and Subsidiaries
Mt. Vernon, Oregon

We have audited the accompanying consolidated financial statements of Oregon Telephone Corporation (an Oregon corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement for the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Telephone Corporation and Subsidiaries at December 31, 2013 and 2012, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GAO Reporting

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2014, on our consideration of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting, and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Wiggins & Co. PC

Brigham City, Utah
March 4, 2014

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]
Restricted cash and cash equivalents	[REDACTED]	[REDACTED]
Investments	[REDACTED]	[REDACTED]
Due from customers and agents, less allowance for doubtful accounts of \$200 and \$200	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]
Interest receivable	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Total current assets	[REDACTED]	[REDACTED]
Other assets and investments		
Investments in affiliates	[REDACTED]	[REDACTED]
Other investments	[REDACTED]	[REDACTED]
Notes receivable-affiliates	[REDACTED]	[REDACTED]
Other assets	[REDACTED]	[REDACTED]
Total other assets and investments	[REDACTED]	[REDACTED]
Property, plant, and equipment		
Telecommunications		
Non-operating	[REDACTED]	[REDACTED]
Operating	[REDACTED]	[REDACTED]
Cable television	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]
Property, plant, and equipment, net	[REDACTED]	[REDACTED]
Total assets and investments	[REDACTED]	[REDACTED]

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Per WAc 480-07-160

The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
DECEMBER 31, 2013 AND 2012

	2013	2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Accounts payable-affiliates	-	-
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Deferred revenue-current portion	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]
Other liabilities		
Deferred income taxes	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]
Post retirement benefits payable	[REDACTED]	[REDACTED]
Long-term debt, net of current portion	[REDACTED]	[REDACTED]
Total other liabilities	[REDACTED]	[REDACTED]
Stockholders' equity		
Common stock	[REDACTED]	[REDACTED]
Common stock reacquired	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
Accumulated other comprehensive income	[REDACTED]	-
Total stockholders' equity	[REDACTED]	[REDACTED]
Total liabilities and stockholders' equity	[REDACTED]	[REDACTED]

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The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating revenue		
Local network	\$ [REDACTED]	\$ [REDACTED]
Network access	[REDACTED]	[REDACTED]
Fiber lease revenue	[REDACTED]	[REDACTED]
Miscellaneous	[REDACTED]	[REDACTED]
Total operating revenue	[REDACTED]	[REDACTED]
Operating expenses		
Plant specific	[REDACTED]	[REDACTED]
Plant nonspecific	[REDACTED]	[REDACTED]
Customer operations	[REDACTED]	[REDACTED]
Corporate operations	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]
Total operating expenses	[REDACTED]	[REDACTED]
Operating taxes		
Income taxes (benefit)	[REDACTED]	[REDACTED]
Other operating taxes	[REDACTED]	[REDACTED]
Total operating expenses and taxes	[REDACTED]	[REDACTED]
Operating income	[REDACTED]	[REDACTED]
Other income (expense)	[REDACTED]	[REDACTED]
Income tax benefit (expense)	[REDACTED]	[REDACTED]
Income available for fixed charges	[REDACTED]	[REDACTED]
Fixed charges, interest on long-term debt	[REDACTED]	[REDACTED]
Net income	\$ [REDACTED]	\$ [REDACTED]

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The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Net income	\$ <u> </u>	\$ <u> </u>
Other comprehensive income (loss)		
Change in unrealized gains (losses) on marketable securities	<u> </u>	<u> </u>
Change in deferred tax liability on unrealized gains (losses)	<u> </u>	<u> </u>
Total other comprehensive income (loss)	<u> </u>	<u> </u>
Total comprehensive income	<u>\$ <u> </u></u>	<u>\$ <u> </u></u>

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The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common Stock	Reacquired Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ [REDACTED]
Reacquired/eliminated stock	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Net income	-	-	[REDACTED]	-	[REDACTED]
Balance, December 31, 2012	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Reacquired/eliminated stock	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Dividends	-	-	[REDACTED]	-	[REDACTED]
Net income/other comprehensive income	-	-	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2013	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Net income (loss)	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Plant retirement costs charged to accumulated depreciation	[REDACTED]	[REDACTED]
Depreciation on miscellaneous physical property/nonoperating property included in other expense	[REDACTED]	[REDACTED]
Depreciation on non-operating plant	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]
Amortization	[REDACTED]	[REDACTED]
Deferred taxes	[REDACTED]	[REDACTED]
Post retirement benefits payable	[REDACTED]	[REDACTED]
Allowance for funds used during construction	[REDACTED]	[REDACTED]
Changes in assets and liabilities		
Due from customers and agents	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]
Income tax refund receivable	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Net cash provided (used) by operating activities	[REDACTED]	[REDACTED]
Cash flows from investing activities		
Capital expenditures	[REDACTED]	[REDACTED]
Payments on (issuance of) notes receivable	[REDACTED]	[REDACTED]
Proceeds from (purchase of) investments in affiliates	[REDACTED]	[REDACTED]
(Purchase of) proceeds from marketable securities	[REDACTED]	(25,188)
(Purchase) disposal of miscellaneous physical property	[REDACTED]	[REDACTED]
Proceeds and salvage received	[REDACTED]	[REDACTED]
(Purchase of) proceeds from other investments	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]

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The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from financing activities		
Payments on long-term debt	██████████	██████████
Issuance of long-term debt	██████████	██████████
Proceeds from (payments to) notes payable-affiliates	██████████	██████████
Dividends paid	██████████	██████████
Repurchase of stock	██████████	██████████
Net cash provided (used) by financing activities	██████████	██████████
Net increase (decrease) in cash and cash equivalents	██████████	██████████
Cash and cash equivalents, beginning	██████████	██████████
Cash and cash equivalents, ending	\$ ██████████	\$ ██████████
Cash paid during the year for:		
Interest	\$ ██████████	\$ ██████████
Income taxes	\$ ██████████	\$ ██████████

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The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oregon Telephone Corporation (the Company) is an Oregon corporation providing telecommunications services within and around the cities of Mt. Vernon, Prairie City, Unity, Bates, Harper, Juntura and Dayville, Oregon.

North State Telephone Company is an Oregon corporation providing telecommunications services within and around the City of Dufur, Oregon, and provides cable television services to a similar area through North State Cablevision Company.

During 2002, the Company issued stock to new stockholders and reacquired the stock of the former stockholders. The Company purchased 264 shares of stock at the fair value determined prior to the date of purchase. The amount is recorded at cost in the current financial statements. During 2003, Oregon Telephone Corporation purchased 95.29% of the outstanding shares of North State Telephone Company. 43.36 additional shares of Oregon Telephone Corporation were purchased during 2003. Eleven of these shares were purchased by North State Telephone Company. The purpose was to add additional equity to Oregon Telephone Corporation on an unconsolidated basis. The net effect on a consolidated basis is \$0. In 2012, the Company re-purchased two shares of outstanding stock at cost. In 2013, the Company re-purchased 16.251 shares of outstanding stock at cost. In total, 284.251 shares have been re-purchased by the Company since 2001.

Principals of Consolidation

Oregon Telephone Corporation owns 95.29% and its stockholders own 4.71% of North State Telephone Company.

The consolidated financial statements include the accounts of Oregon Telephone Corporation and its subsidiary, North State Telephone Company. All intercompany transactions and balances have been eliminated in the consolidation.

During 2010, North State Telephone Company acquired 100% of the outstanding common stock of Beaver Creek Telephone Company (name changed in 2011 to Skyline Telecom, Inc.). Skyline Telecom, Inc.'s audited financial statements are consolidated with North State Telephone Company. The Company formed a single member limited liability company, MD Communications, LLC, for the purchase of a facility to house internet and other equipment. This entity is included in the consolidated statements of the Company.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principals of Consolidation (continued)

Under the terms of a management agreement, Oregon Telephone Corporation provides labor, overhead, and support services to North State Telephone Company, which are reimbursed each month. During 2013 and 2012, the total reimbursements under the agreement were \$[REDACTED] and \$[REDACTED], respectively. These amounts are recorded against expenditures when accrued and thus no elimination is required.

Regulation

The Company's telecommunication services are subject to limited regulations by the Public Utility Commission of Oregon (PUC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly actual results could differ from those estimates.

Comprehensive Income

The Company follows *FASB Accounting Standards Codification Sections for Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. There were no material comprehensive income items in 2012, but the Company does have comprehensive income items in 2013 and these consolidated financial statements include a consolidated statement of comprehensive income.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value. Restricted cash and cash equivalents is for funds deposited in separate accounts for the loan funds that are received from Rural Utility Services to be used for plant acquisition.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Investments

Other investments are in common stock of non-controlled entities with ownership percentages less than ten percent. These investments are recorded at cost.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reductions of the accounts receivable accounts. Late fees are charged on accounts that are thirty days past due.

Materials and Supplies

Materials and supplies are stated at the lower of average cost or market. Cost is determined principally by the specific identification method.

Property, Plant, and Equipment

Property, plant, and equipment in service and under construction is stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the PUC. Depreciation rates range from 2.1% to 33%. Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation.

Network Access Revenues

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The company follows an access tariff filed with the PUC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA) and the Oregon Exchange carrier Association (OECA).

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Network Access Revenues (continued)

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

Financial Instruments

The Company follows *FASB Accounting Standards Codification Sections on Disclosures about Fair Value of Financial Instruments*. The Statement extends fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Interest is charged on loans and notes receivable and recognized when earned. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of debt agreements. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers. No collateral is required by the Company to support financial instruments subject to credit risk.

The Company maintains most of its cash accounts in commercial banks located in Oregon. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for other eligible accounts. A summary of the total insured bank balances (these are not reconciled book balances) follows:

	2013	2012
Total cash balance (bank balance)	\$ ██████████	\$ ██████████
Portion of bank balance uninsured by FDIC	██████████	██████████
Insured bank balances	\$ ██████████	\$ ██████████
Book balances	\$ ██████████	\$ ██████████

Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billed amounts based on PUC approved rates.

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 per WTC 480-07-160

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification of Prior Year Amounts

Certain amounts as previously reported in 2012 have been reclassified to conform with the 2013 financial statement presentation.

Allowance for Funds Used During Construction

The Company is required to calculate an amount to be capitalized to plant for funds used during construction as defined by FCC Part 32 accounting policies. The calculation involves capitalizing funds at an average rate based on the Company's borrowing rate. The amount recorded for 2013 was \$0 and for 2012, the amount recorded was \$0.

Common Stock

Common stock of the Companies is as follows at December 31, 2013 and 2012:

2013:	<u>Par Value</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Oregon Telephone	No par	1,000	59.253
North State Telephone	No par	500	85.000
2012:			
Oregon Telephone	No par	1,000	75.504
North State Telephone	No par	500	85.000

Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained. Additions are estimated based on historical analysis of write-offs and collections as a percentage of sales and accounts receivable balances.

NOTE 2. INVESTMENTS

Other Investments

Other investments consist of the following:

Investments in affiliates:	<u>2013</u>	<u>2012</u>
Investment in Skyline Telecom, Inc, 1,000 shares, recorded using the equity method, value is excess fair value over equity balance.	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 2. INVESTMENTS (continued)

Other Investments (continued)

Investment in Skyline Telecom, Inc., 400 shares, recorded using the equity method, value is excess fair value over equity balance.

Western Independent Networks, Inc. (WIN), 300 s

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
\$ [REDACTED]	\$ [REDACTED]

Investments in Marketable Equity Securities

The Company classifies its marketable equity securities as “available for sale.” Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in accumulated other comprehensive income in the equity section. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss. Available for sale financial assets are comprised entirely of equity securities. The fair values of investments in equity securities are determined with reference to their quoted closing bid price at the measurement date.

Cost and fair value of marketable equity securities at December 31, 2013 and 2012 are as follows:

	Amortized Cost	Fair Value	Fair Value Measurement at Reporting Date- Quoted Prices in Active Markets for Identical Assets (Level 1)
December 31, 2013:			
Available for sale securities:			
Domestic equity securities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
December 31, 2012:			
Available for sale securities:			
Domestic equity securities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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Realized gains and losses are included in earnings and reported as other income for the years ended December 31, 2013 and 2012. Proceeds from the sale of available for sale securities were \$[REDACTED] in 2013 and \$[REDACTED] in 2012. Realized earnings for 2013 and 2012, were [REDACTED] and [REDACTED]. Unrealized gains are included in other comprehensive income. Unrealized gains for 2013 and 2012, were \$[REDACTED] and \$[REDACTED].

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 3. PROPERTY, PLANT, AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment in service:

	2013	2012
Telecommunications:		
Operating Plant:		
Land and support	\$ [REDACTED]	\$ [REDACTED]
Central office	[REDACTED]	[REDACTED]
Cable and wire facilities	[REDACTED]	[REDACTED]
Under construction	-	-
	[REDACTED]	[REDACTED]
Non-operating Plant-Subscriber lists, goodwill	[REDACTED]	[REDACTED]
Non-operating Plant-Building and land	[REDACTED]	[REDACTED]
Total Telecommunications	[REDACTED]	[REDACTED]
Cable television	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

	2013	2012
<u>Oregon Telephone Corporation</u>		
2 notes payable to Zions First National Bank, payable in monthly payments totaling [REDACTED] collateralized by vehicles, due in 2017 and 2018..	[REDACTED]	[REDACTED]
4.85% note payable to Zions First National Bank, payable in monthly payments of [REDACTED] collateralized by 4 vehicles and HVC equipment, due in 2019.	[REDACTED]	[REDACTED]
7% notes payable to Bank of Eastern Oregon, payable in monthly payments of [REDACTED] collateralized by 3 vehicles, [REDACTED] is guaranteed by the stockholders of the Company, due 2019.	[REDACTED]	[REDACTED]
4% notes payable to Bank of Eastern Oregon, payable in monthly payments of [REDACTED] collateralized by a Ditch Witch bore rig, and vehicles due 2017.	[REDACTED]	[REDACTED]
3.09% note payable to Sterling Bank payable in monthly payments of [REDACTED] collateralized by a Ford Edge, due 2017.	[REDACTED]	[REDACTED]
3.89% note payable to Ally payable in monthly payments of [REDACTED] collateralized by a 2013 GMC Crew Cab Sierra, due 2016.	[REDACTED]	[REDACTED]
7% mortgage notes payable to RTB, payable in quarterly installments of [REDACTED] collateralized by substantially all real and personal property, due in various years beginning 2013 through 2021.	[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4. LONG-TERM DEBT (continued)

	2013	2012
5% to 6.88% mortgage notes payable to RTB, payable in monthly installments of \$ 1,172 collateralized by substantially all real and personal property, due 2013-2020.	1,172	1,538,800
5% mortgage notes payable to RTB, payable in monthly installments of \$ 17,061 collateralized by substantially all real and personal property, due 2015-2022.	17,061	2,899,731
4.068% to 7.03% mortgage notes payable to RUS, payable in monthly installments of \$ 1,100 on finalized loans and interest only on non-finalized loans, collateralized by substantially all real and personal property, due 2013-2022.	1,100	7,647,703
6% note payable to James Damon, payable in monthly installments of \$ 13,913 , collateralized by a 2nd mortgage on all real and personal property, due 2015.	13,913	13,913
M.D. Communications, LLC:		
6.5% note payable to Janet H. Robertson and William C. Robertson, payable in monthly installments of \$ 1,163 collateralized by a lien on all real property, due 2020.	1,163	1,163
Total Oregon Telephone Corporation and M.D. Communications, LLC	21,209,209	21,209,209
<u>North State Telephone Company</u>		
5% mortgage note payable to RUS, payable in monthly installments of \$ 603 collateralized by substantially all real and personal property, due in 2019.	603	603
5% mortgage note payable to RUS, payable in monthly installments beginning in 2007, currently interest only payments are required, collateralized by substantially all real and personal property, due in 2020.	5,109,021	7,870,333
Total North State Telephone Company	5,109,624	8,473,636

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4. LONG-TERM DEBT (continued)

	2013	2012
Skyline Telecom, Inc.:		
4.36-4.7% mortgage note payable to RUS, payable in monthly installments of ████████ , collateralized by substantially all real and personal property, due in 2021.	████████	████████
4.1-4.52% mortgage note payable to RUS, payable in monthly installments of \$6,567 , collateralized by substantially all real and personal property, due in 2022.	████████	████████
4.1-4.52% mortgage note payable to RUS, payable in monthly installments of \$5,512 , collateralized by substantially all real and personal property, due in 2022.	████████	████████
Variable interest rate, \$100,000 note payable to Bank of Eastern Oregon, principal and interest due in monthly installments of \$5,941 , not collateralized but fully guaranteed by the officers of the Company. Monthly payments of \$5,941	████████	████████
	████████	████████
Total North State Telephone Company consolidated	████████	████████
Total consolidated amount	████████	████████
Less current portion	████████	████████
	\$ ██████████	\$ ██████████

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Future maturities of long-term debt are as follows:

	Oregon Telephone	North State Telephone	Total
2014	\$ ████████	\$ ████████	\$ ████████
2015	████████	████████	████████
2016	████████	████████	████████
2017	████████	████████	████████
2018	████████	████████	████████
Thereafter	████████	████████	████████
	\$ ██████████	\$ ██████████	\$ ██████████

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4. LONG-TERM DEBT (continued)

██████████ in capital lease debt payable from North State Telephone Company to Oregon Telephone Corporation has been eliminated from the debt schedules above.

Oregon Telephone Corporation had unadvanced loan commitments for the replacement and expansion of its property, plant, and equipment from Rural Telephone Bank of ██████████ and from the Rural Utilities Service of ██████████ at December 31, 2013 and in 2012, ██████████ and ██████████ respectively. North State Telephone had unadvanced loan commitments from Rural Utilities Service of ██████████ in 2013 and ██████████ in 2012. These unadvanced funds are expected to be utilized in the next few years.

The long-term debt agreements contain restrictions on the payment of dividends or redemption of capital stock. The terms of the long-term debt agreements require the maintenance of defined amounts of stockholders' equity and working capital after payment of dividends.

The RUS loan documents require that the Company meet a TIER ratio of 1 and a debt service ratio of 1.25. The debt service requirement was met during 2013 and 2012. The TIER ratio was met in 2013 and 2012.

NOTE 5. PENSION PLAN

Substantially all employees of the Company are covered by a defined contribution plan. Contributions to the plan are 12% of an employee's eligible annual compensation. Contributions to the plan for 2013 were \$██████████ and for 2012 were ██████████. The plan is administered by the National Cooperative Association (NTCA).

NOTE 6. OTHER ASSETS

The Company has other assets that are made up of non-regulated assets that are not figured into the rate base for the determination of universal service fund payments and are used for purposes that are not regulated such as rental assets, voicemail services, paystations, pagers and other plant used for other than regulated purposes. The assets and the accumulated depreciation are disclosed below:

	2013	2012
Leased assets	\$ ██████████	\$ ██████████
Paystations	██████████	██████████
MDR/Pagers	██████████	██████████
Wireless DSL equipment	██████████	██████████
Fiber plant & electronics	██████████	██████████
RUS pre-loan costs	██████████	██████████
Wimax equipment	██████████	██████████
Accumulated depreciation	██████████	██████████
	<u>\$ ██████████</u>	<u>\$ ██████████</u>

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 7. INCOME TAXES AND DEFERRED INCOME TAXES

In accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. The Company files tax returns separately from its subsidiaries and, as such, each entity accounts for its own income tax transactions.

At December 31, 2013, the Company has a deferred tax liability of [REDACTED] and at December 31, 2012, the Company had a deferred tax liability of [REDACTED] resulting from differences in depreciation, amortization, bad debt reserves, post-retirement benefits, unrealized gain on investments and other temporary differences for financial statement reporting and income tax reporting. Operating income tax expense (benefit) consists of the following:

	2013	2012
Federal		
Current provision	\$ [REDACTED]	\$ [REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>
State		
Current provision	[REDACTED]	[REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Provision for operating income taxes	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Nonoperating income tax expense (benefit) consists of the following:

Federal	[REDACTED]	[REDACTED]
State	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
Over accrual of prior year taxes	[REDACTED]	[REDACTED]
Provision for nonoperating income tax expense (benefit)	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Total income tax expense (benefit)	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>
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Other Comprehensive Income tax:

Federal deferred provision (benefit)	\$ [REDACTED]	\$ [REDACTED]
State deferred provision (benefit)	[REDACTED]	[REDACTED]
Total other comprehensive income tax	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>

Each of the individual companies that are consolidated in these financial statements file their own tax returns. Each of the companies have open tax years for the current year and the prior three years.

Each of the consolidated companies file their own tax returns. The Company and its subsidiary have open tax years subject to examination for the current year and the prior three years.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 8. POST RETIREMENT BENEFIT

During 2002, the Board of Directors approved a post retirement benefit for two former employees, which requires the Company to provide health insurance for the duration of their lives. The benefit is treated as a single employer defined benefit plan and is administered by the Company. The plan is funded on a pay-as-you-go basis. An accrual for the net present value of the expected liability has been recorded in the financial statements based on an historical cost trend of 5%. At December 31, 2013 and 2012, the accrued net present value balance was [REDACTED] and \$11,001. In 2013 and 2012, [REDACTED] and \$[REDACTED] were paid to meet this benefit. The benefits expected to be paid for the remaining two years are as follows: 2014 [REDACTED] and for the subsequent year 2015 is \$9,006.

NOTE 9. RELATED PARTY TRANSACTIONS

The Company incurred related party transactions during 2013 and 2012. The transactions are with other companies that share common ownership with the Company. The Company charged \$[REDACTED] in 2013 and \$163,500 in 2012 in management fees and rental from Skyline Telecom, Inc. At December 31, 2013, the Company had intercompany receivables, totaling \$522,210, from the following subsidiaries: North State Telephone Company, \$61,197, MD Communications, LLC, \$243,270, North State Cablevision Company, \$80, and Skyline Telecom, Inc., \$17,663, all of which were eliminated in the consolidation of the financial statements.

During 2010, the Company's subsidiary, North State Telephone Company, loaned New Florence Telephone Company, Inc. \$100,000. The interest rate on the note was refinanced to 3% at the beginning of 2012. The outstanding balance at December 31, 2013 and 2012, was \$[REDACTED] and \$[REDACTED], respectively.

NOTE 10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditor's report date, which is the date that the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Oregon Telephone Corporation and Subsidiaries
Mt. Vernon, Oregon

Our report on our audits of the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries, for the years ended December 31, 2013 and 2012, appears on pages 1-2. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information consisting of the consolidating balance sheet at December 31, 2013, and the consolidating statements of income and changes in retained earnings, comprehensive income and cash flows of Oregon Telephone Corporation and Subsidiaries for the year then ended is presented for purposes of additional analysis of the 2013 consolidated financial statements, rather than to present financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Wiggins & Co., PC

Brigham City, Utah
March 4, 2014

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATING BALANCE SHEET
 DECEMBER 31, 2013

	Oregon Telephone Corporation	North-State Telephone Company and Subsidiaries	M.D. Communications, L.L.C.	Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ [REDACTED]
Investments	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Restricted cash and cash equivalents	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Due from customers and agents, less allowance for doubtful accounts of \$200	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Interest receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total current assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other assets and investments					
Investment in affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Notes receivable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total other assets and investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Property, plant, and equipment					
Telecommunications:					
Non-operating	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Operating	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cable television	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Property, plant, and equipment, net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total assets	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (continued)
DECEMBER 31, 2013

	Oregon Telephone Corporation	North-State Telephone Company and Subsidiaries	M.D. Communications, L.L.C.	Eliminations	Total
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other liabilities					
Deferred income taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Post retirement benefits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Long-term debt, net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total other liabilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Stockholders' equity					
Common stock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Common stock reacquired	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Member equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accumulated other comprehensive income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total stockholders' equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total liabilities and stockholders' equity	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME AND CHANGES
IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Oregon Telephone Corporation	North-State Telephone Company and Subsidiaries	M.D. Communications, L.L.C.	Eliminations	Total
Operating revenue					
Local network	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ -	\$ [REDACTED]
Network access	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Fiber lease revenue	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Miscellaneous	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Total operating revenue	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Operating expenses					
Plant specific	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Plant nonspecific	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Customer operations	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Corporate operations	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Depreciation and amortization	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Total operating expenses	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Operating taxes					
Income taxes (benefit)	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Other operating taxes	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Total operating expenses and taxes	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Operating income	[REDACTED]	[REDACTED]	-	-	[REDACTED]
Other income (expense)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income from subsidiary	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income tax benefit (expense)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income available for fixed charges	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Fixed charges - interest on long-term debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Retained earnings/member equity, beginning of year	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividends paid	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Retained earnings/member equity, end of year	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

	Oregon Telephone Corporation	North-State Telephone Company and Subsidiaries	M.D. Communications, L.L.C.	Eliminations	Total
Net income	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Other comprehensive income (loss)					
Change in unrealized gains (losses) on marketable securities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Change in deferred tax liability on unrealized gains (losses)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total other comprehensive income (loss)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total comprehensive income	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Oregon Telephone Corporation	North-State Telephone Company and Subsidiaries	M.D. Communications, L.L.C.	Eliminations	Total
Cash flows from operating activities					
Net income (loss)	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Plant retirement costs charged to accumulated depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation and amortization on miscellaneous physical property/nonoperating property included in other expense	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation on capital lease included in other expense	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Amortization	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Available funds used during construction	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income from subsidiaries	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Post retirement benefits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Changes in assets and liabilities					
Due from customers and agents	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided (used) by operating activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cash flows from investing activities					
Capital expenditures	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(Purchase of) proceeds from other assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds from (purchase of) investments in affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(Purchase of) proceeds from marketable investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Change in interest receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds and salvage received from sale of assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED DECEMBER 31, 2013

	Oregon Telephone Corporation	North-State Telephone Company and Subsidiaries	M.D. Communications, L.L.C.	Eliminations	Total
Cash flows from financing activities					
Payments on long-term debt	██████████	\$52,562	██████████	██████████	██████████
Issuance of long-term debt	██████████	██████████	██████████	██████████	██████████
Dividends paid	██████████	(██████████)	██████████	██████████	██████████
Re-purchase of outstanding capital stock	(██████████)	██████████	██████████	██████████	██████████
Net cash provided (used) by financing activities	(██████████)	(██████████)	(██████████)	(██████████)	(██████████)
Net increase (decrease) in cash and cash equivalents					
	(██████████)	(██████████)	(██████████)	██████████	(██████████)
Cash and cash equivalents, beginning	██████████	██████████	██████████	██████████	██████████
Cash and cash equivalents, ending	\$ ██████████	\$ ██████████	\$ ██████████	\$ ██████████	\$ ██████████
Cash paid during the year for:					
Interest	\$ ██████████	\$ ██████████	\$ ██████████	\$ ██████████	\$ ██████████
Income taxes	\$ ██████████	\$ ██████████	\$ ██████████	\$ ██████████	\$ ██████████

Noncash transactions:

None

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Oregon Telephone Corporation
Mt. Vernon, Oregon

We have audited the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated March 4, 2014. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oregon Telephone Corporation and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

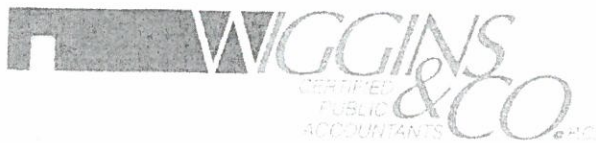
This report is intended for the information and use of the board of directors, management, and the Rural Utilities Service and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC

Brigham City, Utah

March 4, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF
CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR
TELEPHONE BORROWERS

The Board of Directors
Oregon Telephone Corporation
Mt. Vernon, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Oregon Telephone Corporation, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of revenue, comprehensive income, stockholders' equity and changes in cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 4, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2014, on our consideration of Oregon Telephone Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Oregon Telephone Corporation failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Oregon Telephone Corporation's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Oregon Telephone Corporation's accounting and records to indicate that Oregon Telephone Corporation did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the telephone system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wiggins & Co, PC

Brigham City, Utah
March 4, 2014

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